

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001

Competitive Products Price Changes
Parcel Select

Docket No. CP2011-64

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE TO
UNITED STATES POSTAL SERVICE NOTICE CONCERNING
PROPOSED NEW PRICES WITHIN PARCEL SELECT

(MARCH 24, 2011)

INTRODUCTION

On March 16, 2011, the Postal Service filed a notice with the Postal Regulatory Commission to reclassify and change rates of general applicability for a competitive product, in accordance with 39 CFR 3015.2.¹ In that notice, the Postal Service informs the Commission that it seeks to establish new prices for the forwarding or return of Parcel Select packages that are undelivered as addressed (UAA). In response to that Notice, the Postal Regulatory Commission issued Order No. 698, addressing the Notice and requesting comments by interested parties.² the Public Representative submits the following comments for the Commission's consideration.

BACKGROUND

Currently, the Postal Service charges the Single Piece Parcel Post rate for forwards and returns of UAA Parcel Select packages. Under the new rate schedule, the Postal Service would charge Parcel Select forwards and returns the Postal Service Barcoded Nonpresort price plus a \$3.00 surcharge. The Postal Service states that the

¹ Notice of the United States Postal Service of Changes in Rates of General Applicability for a Competitive Product Established in Governors' Decision No.11-5, March 16, 2011 (Notice).

² Notice and Order Concerning Proposed New Prices within Parcel Select, Marched 17, 2011.

new “base rate” plus surcharge treatment is consistent with current practice by several competitors. It claims that the new rate structure would more “closely align” with competitor rates and add to current Parcel Select revenue. Notice at 5. The Postal Service also states that there is a small risk of volume and revenue decline because of the new \$3.00 fee, but given current rates charged by competitors for forwards and returns, the risk of revenue decline is small. *Id.* Additionally, the Postal Service filed financial worksheets showing a coverage calculation involving the new rate structure.

DISCUSSION

In its financial analysis, the Postal Service shows that the \$3.00 surcharge will more than cover the added unit cost associated with forwarding and returning UAA Parcel Select pieces, whereas, previously, the original shipment cost and the added cost for forwards and returns were only covered by the Single Piece Parcel Post rate. Therefore the Public Representative notes that the sum of the new base rate (the Parcel Select Barcoded Nonpresort rate plus the \$3.00 fee) will cover both the original shipment cost and the incremental forwarding and return cost.

Further, the Public Representative agrees with the Postal Service that increased rates pose some risk of volume and revenue loss. The presence of competition has a tendency to increase demand elasticity, so that previously inelastic demand can still stay inelastic or now become elastic. In the former case, higher rates increase revenues, reduce costs and, therefore, contribution increases. In the latter case with elastic demand, higher rates decrease both revenues and costs, so the effect on total contribution is unclear. However, even if Parcel Select demand is elastic, it appears from the FY2009 CRA cost coverage factor for Total Ground services that the proposed rate increase would increase Parcel Select contribution.³

The Public Representative notes that the Postal Service is aware of the demand elasticity for its Parcel Select product from the demand models it files annually with the Commission. These models can be used to provide point estimates of effects on volume, revenues, costs (in conjunction with estimates of unit variable costs) and

³ See PR comments, Docket No. CP2011-60, March 3, 2011, for further discussion and calculation.

contribution from proposed rate increases at the product or rate component level. The Public Representative encourages the Postal Service to file such impact analyses with the Commission, as part of future notices of competitive product rate and classification changes. Such filings would allow the Commission to judge better the effect of rate changes on the product contribution requirements, specified in Section 3633(a).

The Public Representative respectfully submits the preceding comments for the Commission's consideration.

William C. Miller
Public Representative

901 New York Ave., NW Suite 200
Washington DC 20268
(202) 789-6829; Fax (202) 289-6861
email: william.miller@prc.gov